

**Performance Audit
Capital Improvements Management Office**

January 2005

**City Auditor's Office
City of Kansas City, Missouri**

January 12, 2005

Honorable Mayor and Members of the City Council:

We conducted this performance audit of the Capital Improvements Management Office (CIMO) at the direction of the City Council. The Council's Budget and Audit Committee requested we audit the new program because members were concerned about cost overruns and program effectiveness. We focused the audit on program design to ensure that CIMO has, or is developing, systems to manage, monitor, and report on capital improvement projects.

The City Manager and CIMO have taken much-needed steps to improve accountability, speed processes, and strengthen project management. Therefore, CIMO is likely to reduce the city's \$400 million backlog in capital improvement projects. CIMO's success, however, depends on management fully implementing the changes that are underway and addressing risks going forward. We recommend that the City Manager:

- Continue to monitor the CIMO contract closely and ensure that staff document process changes;
- Develop consistent cost accounting for capital improvements;
- Ensure that CIMO develops and reports aggregate performance measures on cost and timeliness;
- Clearly define the scope of CIMO's responsibilities; and
- Ensure that staff develops and implements ongoing procedures for ensuring capital improvements data are reliable.

While some stakeholders have questioned the cost, the City Manager's decision to hire a consultant team to implement CIMO was reasonable given the magnitude of the backlog. It's difficult to evaluate whether the cost of the contract is reasonable because the final cost and outcomes are not yet known and the city lacks information on overhead costs before CIMO.

We provided a draft report to the City Manager for review and comment. The City Manager's response is appended. We appreciate the courtesy and cooperation of city staff and contractors while we conducted the audit. The team for this project was Sue Polys, Joan Pu, Julia Talauliker, Vivien Zhi and Amanda Noble.

Mark Funkhouser
City Auditor

Capital Improvements Management Office

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Introduction

Objectives

We conducted this performance audit of the Capital Improvements Management Office (CIMO) under authority of Article II, Section 13 of the city charter, which establishes the Office of the City Auditor and describes the City Auditor's primary duties. A performance audit independently and systematically examines evidence to assess the performance and management of a program against objective criteria. Performance audits provide information to improve program operations and facilitate decision-making.¹

The City Council's Budget and Audit Committee requested we audit CIMO, citing concerns about cost overruns and whether the office would be able to deliver on its promises. Other stakeholders we talked to agreed that the city's system for managing capital improvements prior to CIMO had not been working – projects approved years ago had not started. Despite tight budgets in the past few years, the city had a backlog of hundreds of millions of unspent dollars appropriated for capital projects. While stakeholders agreed the capital improvements process needed to be fixed, some expressed concerns about whether CIMO could be effective and whether CIMO costs too much. We designed the audit to address these concerns and answer the following questions:

- What was the extent of the city's capital improvements backlog?
- Is the CIMO approach likely to address the backlog and other stakeholder concerns?

Scope and Methodology

Because CIMO is such a new program, our audit focuses on program design. We reviewed the steps CIMO has taken so far to ensure systems are in place to manage, monitor, and report on capital improvement projects. We followed government auditing standards in conducting the audit. Our methods included:

¹ Comptroller General of the United States, *Government Auditing Standards* (Washington, DC: U.S. Government Printing Office, 2003), p. 21.

- Compiling a timeline of CIMO program development based on press releases, steering committee agendas, ordinances, and resolutions.
- Reviewing the city's contract with MWH Americas, Inc., task orders, and deliverables.
- Reviewing invoices and payments to MWH Americas, Inc., for January through September 2004.
- Reviewing MWH Americas, Inc.'s financial statements for 2000, 2001, 2003, and 2004.
- Reviewing documents related to contractor selection for CIMO.
- Compiling information about past capital appropriations and spending from accounting records, ordinances, and budgets.
- Interviewing city staff, contractors, and representatives of the local construction industry.
- Reviewing CIMO's project management training manual.
- Reviewing a project file and observing a project team meeting.
- Reviewing our prior audit recommendations related to capital improvements.

We omitted no privileged or confidential information from this report.

Background

The City Manager established the Capital Improvements Management Office (CIMO) in January 2004. CIMO is an integrated team of consultants and city staff reporting to the City Manager. Its primary goal is to expedite completion of high priority construction projects, while streamlining city processes.

CIMO's scope of work began with 151 prioritized projects that were inherited from various city departments and requested by council members and department directors. The number of projects CIMO is responsible for expanded to more than 400 by the end of 2004, totaling about \$530 million in infrastructure improvements and development in Kansas City. Since May 2004, CIMO is managing the public infrastructure component of the downtown entertainment district, KC Live!. CIMO is also responsible for managing a portion of the voter-

approved General Obligation Bonds passed in April 2004, including improvements to the Liberty Memorial and the Zoo.

The city contracted with MWH Americas, Inc. in December 2003 for staff extension services and program management for selected high priority capital improvement projects. The term of the contract is for three years. Separate task orders describe scope of services and compensation. The city has entered into three task orders to date:

- Task Order 1 describes the scope of work for the first year, which includes establishing goals, roles and responsibilities, internal controls, communication protocol, success measures, and reporting frameworks.
- Task Order 2 provided additional funding to oversee and coordinate aspects of the KC Live! project.
- Task Order 3 describes the scope of work for the second year, which includes helping develop CIMO into a city department by training staff and developing long-term strategic planning.

The total value of the contract to date is about \$13 million: about \$5 million for Task Order 1; about \$1.9 million for Task Order 2; and about \$5.9 million for Task Order 3. The contract is funded through administrative charges against the projects.

Findings and Recommendations

Summary

CIMO is likely to reduce the city's \$400 million backlog in capital improvement projects. The City Manager and CIMO have taken much-needed steps to improve accountability, speed processes, and strengthen project management. CIMO's success, however, depends on management fully implementing the changes that are underway and addressing risks going forward.

The city faces some risk in controlling contract costs and scope. We recommend that the City Manager continue to monitor the contract closely and ensure that CIMO staff document process changes. To provide the City Council with information it needs to oversee the effectiveness of the capital program, we recommend the City Manager develop consistent cost accounting for capital improvements and ensure that CIMO develops and reports aggregate performance measures on cost and timeliness.

CIMO also faces some risk inherent to changing the organization. We recommend the City Manager establish criteria on the types of projects that CIMO should be responsible for managing and carefully consider whether operating departments should be responsible for managing any capital projects. We also recommend the City Manager ensure that staff develops and implements ongoing procedures for ensuring capital improvements data are reliable.

While some stakeholders have questioned the cost, the City Manager's decision to hire a consultant team to implement CIMO was reasonable given the magnitude of the backlog. It's difficult to evaluate whether the cost of the contract is reasonable because the final cost and outcomes are not yet known and the city lacks information on overhead costs before CIMO.

Backlog of Capital Improvements Grew to \$400 million

The city's backlog of unspent capital appropriations grew to \$400 million by the end of fiscal year 2004. The city increased funding for capital improvements over the past decade by raising taxes and

earmarking new revenue sources for capital. However, its systems for managing capital improvements were fragmented and lacked accountability. Most oversight of capital improvements focused on the annual budgeting and appropriations process. Despite a \$13.1 million investment in custom-developed software, the city lacked reliable information to monitor and evaluate the effectiveness of the capital improvements program. Delay in completing approved projects undermines the public's confidence in the city's ability to get things done. The city also faced risk of losing federal matching funds and loss of value of the funds as the cost of construction materials increased by more than the interest the funds generated.

City Accumulated Backlog of Capital Improvements Funding

The city increased capital improvements funding over the past decade by raising taxes and earmarking new revenue sources for capital. The number of projects approved also increased, especially in the past few years. However, the city apparently did not increase its capacity to manage additional projects and increasing amounts of the capital appropriations were rolled into the next year's spending authority. By the end of fiscal year 2004, the city had about \$400 million of unspent capital appropriations essentially sitting in the bank. About two-thirds of the backlog is in funds for general municipal programs, such as roadways, bridges, and flood control projects. Most of the rest is funds for airport improvements.

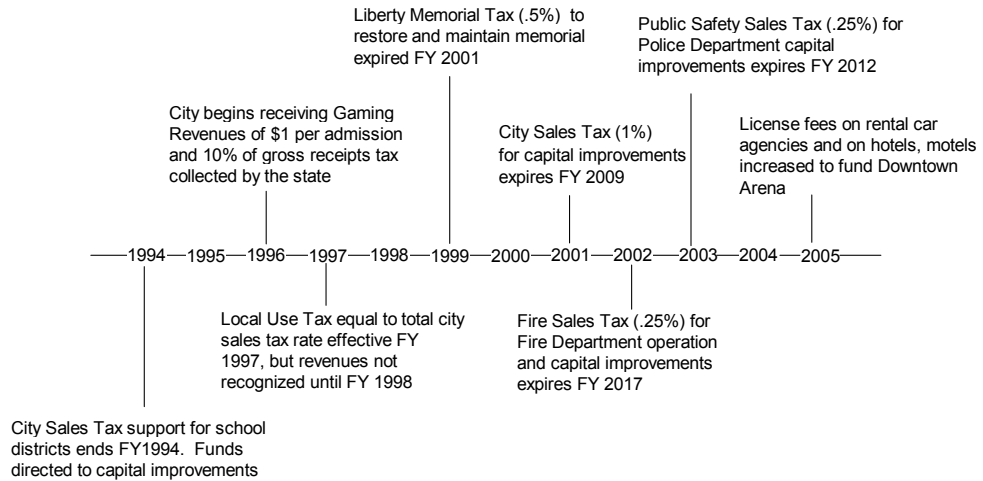
The city earmarked new revenue sources for capital. The city has increased funding for capital improvements using new revenue sources. The city added funding for capital improvements in fiscal year 1995 when the city's commitment to provide a portion of its sales tax for school assistance expired and the Council shifted the funds to capital. The city began to receive gaming revenues in fiscal year 1996. Between fiscal years 1997 and 2003, the city added the local use tax, dedicated sales taxes, and reauthorized the city sales tax for capital improvements. (See Exhibit 1.) In fiscal year 2004, these sources of revenue brought in \$137 million.

The city earmarked the new funds for capital in order to address deferred maintenance of infrastructure. The City Council passed a resolution in 1997 to support the Community Infrastructure Committee's recommendation to add \$5 million annually through fiscal year 2006 to fund capital maintenance projects that had been deferred through the years.² The budget for capital improvements excluding enterprise funds

² Resolution 971326.

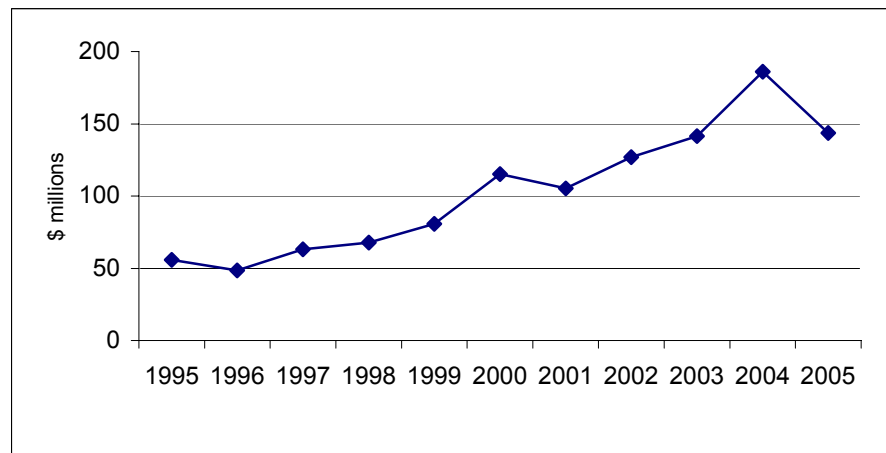
increased from about \$55 million in fiscal year 1995 to about \$190 million in fiscal year 2004. (See Exhibit 2.) As funding grew, the Council approved more capital projects. (See Exhibit 3.)

Exhibit 1. Revenue for Capital Improvements by Effective Date



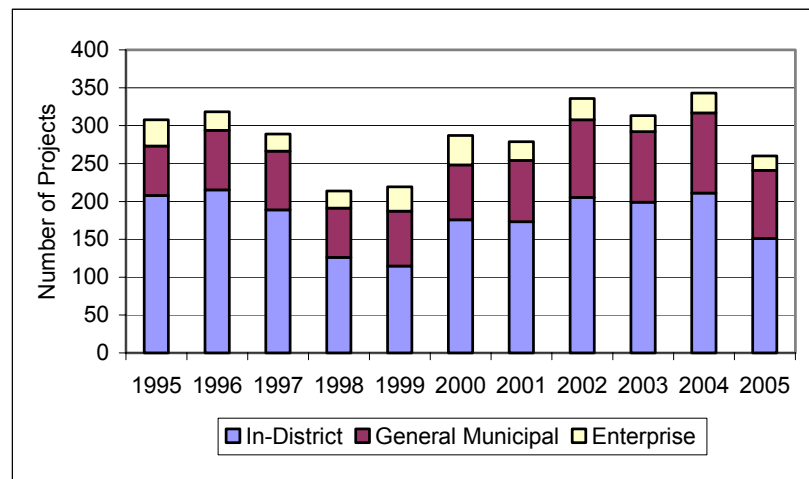
Sources: Kansas City, Missouri, ordinances, Revised Statutes of Missouri, and Comprehensive Annual Financial Reports, 1994-2003.

Exhibit 2. Adopted Budgets for Capital Improvements
General Municipal Funds, Fiscal Years 1995-2005



Source: Office of Management and Budget.

Exhibit 3. Number of Capital Projects Approved, Fiscal Years 1995-2005



Source: Capital Budgets.

The backlog has increased significantly. The city's spending for capital improvements, however, did not keep pace with the increased funding. In fiscal years 1994 through 1998, the city spent between about 70 and 80 percent of its capital appropriations from general municipal funds. Since 1999 as these appropriations increased with the added revenue, the city spent less than half of its available funds – new appropriations plus unspent funds rolled over from the previous year – in most years. The city spent just over a third of its capital appropriations from the general fund and funds earmarked for capital in fiscal year 2004. (See Exhibit 4.)

Exhibit 4. Capital Spending as Percentage of Budget Authority, General Municipal Funds, Fiscal Years 1995-2005 (\$ millions)

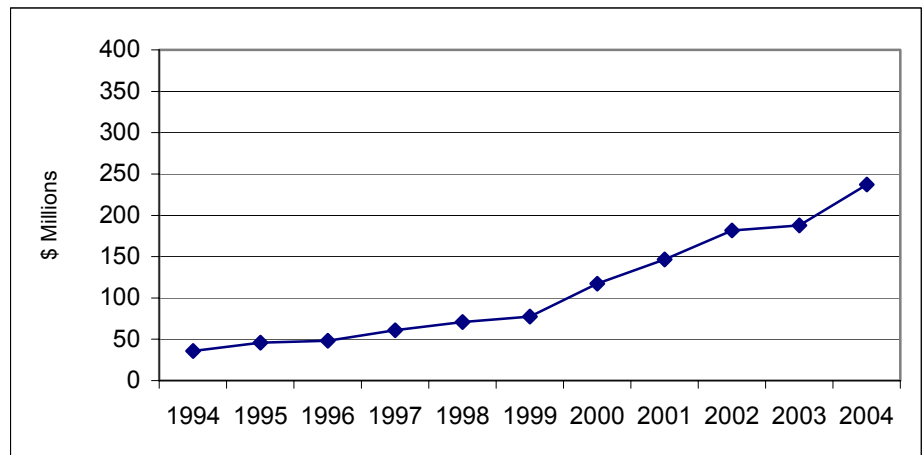
Year	Budget Authority	Amount Spent	Percent of Budget Spent
1994	153.8	112.1	72.9%
1995	281.0	231.2	82.3%
1996	209.5	151.1	72.1%
1997	260.4	195.3	75.0%
1998	310.1	235.8	76.1%
1999	296.7	144.9	48.8%
2000	440.7	188.1	42.7%
2001	516.2	305.4	59.2%
2002	741.8	347.7	46.9%
2003	701.0	357.0	50.9%
2004	626.3	227.6	36.3%

Source: City's Financial Management System.

The city's reappropriation of capital funding from the general fund and funds earmarked for capital improvements increased from \$36 million in

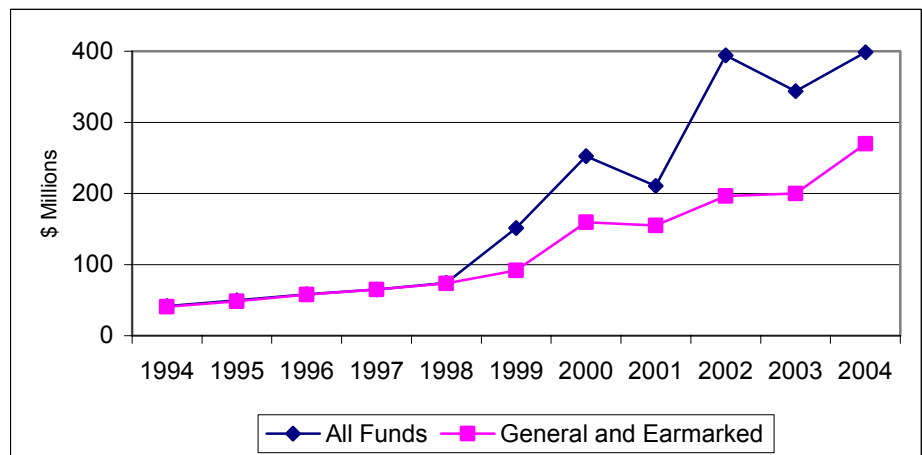
fiscal year 1994 to over \$237 million in fiscal year 2004. (See Exhibit 5.) The balance of unspent capital appropriations in these funds accumulated resulting in a backlog of about \$270 million at the end of fiscal year 2004. Unspent capital appropriations also accumulated in the enterprise funds. By the end of fiscal year 2004, the city had a balance of almost \$400 million in unspent appropriations essentially sitting in the bank, invested in short-term funds. (See Exhibit 6.) Most of the unspent capital appropriations from the enterprise funds are for airport improvements.

Exhibit 5. Reappropriation for Capital Improvements General Municipal Funds



Source: Budget Ordinances.

Exhibit 6. Balance of Capital Improvements Funding Available at the End of the Year



Source: City's Financial Management System.

Addressing deferred maintenance has been one of the City Council's priorities. Delays in completing approved projects undermines the public's confidence in the city's ability to get things done. Delays could

also jeopardize federal matching funds, and result in loss of value of the funds as the cost of construction materials increased by more than the interest the funds generated. Contractors could bid higher costs for city projects to compensate for delays in the process.

Oversight Focused on Budget Process, Council Lacked Information on Overall Status of Projects

Most of the city's oversight mechanisms for capital improvements focused on the budget process. However, the delivery systems of capital improvements were fragmented among departments. The Council did not get aggregate information about the status of capital improvements. The City Council needs tools to monitor the progress of the capital improvements program on an aggregate level as well as the status of individual projects.

Oversight focused on budget and appropriation. Most of the City Manager's and City Council's involvement in the capital improvements process has been in budgeting and appropriating funds. The City Council receives reports on individual capital projects, including project description and funding sources in the Five-Year Capital Improvement Plan. But the plan stops short of providing ongoing information to evaluate the effectiveness of the capital improvements program. Council members told us that they were frustrated by lack of progress on various projects and have periodically requested status reports of projects in their districts.

Capital Improvement Planning Process

The city's capital planning process begins each year when city departments submit capital improvements requests. The Public Improvements Advisory Committee (PIAC) consisting of 13 individuals, 2 from each council district and a chairperson, solicits input and reviews each project request. PIAC then makes recommendations regarding the appropriation of general municipal funds for capital improvements and the neighborhood conservation funds to the City Manager, the Mayor, and the City Council. The City Manager solicits input from the Mayor and the City Council and includes the PIAC recommendations, with a possible adjustment, along with the rest of the budget to the Mayor and the City Council.

The City Council reviews the capital budget recommendations as part of its deliberations on the entire budget. Finally, City Council adopts the annual capital improvements budget along with the entire budget for the new fiscal year.

Source: Capital Budget.

Council needs aggregate information to oversee the capital program.

Several city departments were responsible for capital improvement projects – Public Works, Aviation, Water Services, and Parks and Recreation. Project management was decentralized. The individual departments kept project files, but the city did not have a central source of project information or standard processes. The decentralized processes contributed to lack of accountability and oversight.

The software system was intended to solve the problem. Public Works started working with a consultant, APEX Associates, in 1999 to assess the city's needs for a system to track and monitor capital improvement projects. The consultants worked with participants from Public Works, Water Services, Aviation, and Parks and Recreation. The consultants determined the city's capital improvement programs lacked consistency and that individual engineers used more than 70 different systems – such as spreadsheets and manual logs – to track projects. Based on the assessment, the consultants recommended a custom system because they believed that off the shelf project management systems would not meet all of the city's needs. APEX worked with the city to develop specifications for a new system, then known as program/project management (P/PM). APEX subsequently formed a new company – Governance Solutions, LLC – to develop the software application. The city contracted with APEX for business process re-engineering and system implementation and has entered into a service agreement with Governance Solutions to use the software – first known as PKS and now called *i*-INFO. The city spent \$13.1 million between 1999 and 2004 on this effort.

The *i*-INFO system wasn't fully implemented. The system was intended for use in Public Works, Aviation, Water Services, and Parks and Recreation. However, not all project managers were consistently entering data into the system. In July 2003, the City Manager moved oversight and governance of the project out of Public Works and directed the Office of Information Technology to manage its funding, requisition authority, and key personnel. The IT director temporarily stopped the project pending an assessment of its value to departments. On recommendation of city staff, the City Manager decided to continue the project and in April 2004, directed staff to make a concerted effort to enter essential data into the system within 100 days.

CIMO Approach Likely to Reduce Backlog and Enhance Project Management

While stakeholders we talked to agreed the capital improvements process was broken and needed to be fixed, some expressed concerns about whether CIMO could be effective, whether CIMO costs too much, and whether the contractor selection process was fair.

CIMO has taken steps that are likely to reduce the backlog and strengthen project management. Consultants are more costly than city staff on an hourly basis. However, given the magnitude of the problem, the City Manager's decision to hire consultants to establish CIMO was reasonable. It's difficult to assess the cost of the contract because the city does not yet know the total cost of the contract or the final outcome. The city also lacks information to compare overall project overhead costs before and after CIMO's implementation.

We found no evidence that the city's process to select the CIMO contractors was improper.

CIMO Approach Likely to Reduce Backlog

The City Manager's decision to consolidate capital improvements management into one office should improve accountability. Establishing the design-build method of contracting and allowing selection of contractors from pre-qualified lists for smaller projects should also speed the capital improvements process and help reduce the backlog. CIMO is taking additional steps to strengthen project management that should speed capital improvements and improve accountability.

Consolidating capital management into one office should improve accountability. Consolidating construction activities is consistent with our previous recommendations. We surveyed comparable cities as part of the audit of *Consolidation of Selected Activities, Parks and Recreation and Public Works Department* in 1995 and reported that 11 of 15 cities consolidated their construction efforts in a single department. We suggested creating a department of engineering services, noting that there were engineering and allied positions in 12 city departments, representing 429 positions.

We suggested in the audit report of *KCI Terminal Improvement Project* (May 2004) that consolidating the city's construction efforts could increase effectiveness and staff expertise. We recommended the City

Manager develop a plan for consolidating construction efforts and require oversight committees for all major construction projects.

CIMO sponsored ordinance changes to speed capital processes. The City Council passed several ordinances to revise the capital improvements process that should allow some types of projects to be completed more quickly:

- Authorized use of the “design-build” method by which a city project is designed and constructed under one contract instead of separate contracts;
- Raised the threshold for public notice and sealed bids for construction contracts from \$100,000 to \$300,000 and authorized the City Manager to prequalify firms to bid on city construction contracts not exceeding \$300,000 and to award contracts not exceeding \$300,000 to the lowest and best bidder that is solicited from the prequalified list.
- Revised the selection process of architects, engineers, and land surveyors so that the city can select firms based on an evaluation of a statement of qualification for contracts under \$500,000 instead of a special committee.

CIMO is strengthening project management. CIMO has taken a number of steps and has some underway that should – if fully implemented – strengthen project management. The strategies include:

- Developing standard procedures
- Developing a document control system
- Training project managers
- Establishing project teams that are responsible from start to finish
- Separating support functions from project teams
- Establishing and monitoring time budgets for projects
- Developing public reports on project status

Consultants are paired with city staff to promote staff development. The plan is for the consultants to provide staff extension services to address

the backlog of projects, redesign city processes, and build in-house expertise so the city staff can take over the function within three years.

The city needs additional oversight mechanisms. CIMO is developing key performance indicators to report to the City Council along with reports on the status of individual projects. The proposed measures focus on progress in addressing the backlog. CIMO should also develop aggregate performance measures on cost and timeliness in order to provide the City Manager and Council with information they need to oversee the capital program.

Hiring a Consultant Was a Reasonable Decision

Some stakeholders we talked to questioned how the city could save money by substituting more expensive consultants for city staff and some expressed concern that the contractor selection process wasn't fair.

The City Manager's decision to hire a consultant team to expedite completion of backlogged capital improvement projects and at the same time to enhance city's capital improvement process was reasonable, especially given the magnitude of the problem. However, it is difficult to assess whether the contract costs too much because the city doesn't yet know the total cost of the contract or the final outcome. The city also lacks information to compare overall project overhead costs before and after CIMO's implementation. CIMO seems to be getting the job done. However, the expanded scope and the nature of the contract add some risk. The City Manager should continue to monitor the contract closely.

The final cost and outcomes of the contract are unknown. It is difficult to evaluate the value of the contract because the total costs and outcomes are not yet known. The contractors are more costly than city employees on an hourly basis. The city paid the contractor and subcontractors about \$3.9 million between January and September 2004 for staff time and other expenses. About \$1.6 million of the payments were for MWH staff hours and about \$373,000 were for MWH other direct costs, including per diem, airfares, rental cars, cell phones and services, and other expenses. The rest is for the subcontractors' staff hours and other direct expenses, and MWH's subcontractor charges. Contractors and subcontractors billed for a total of 28,285 hours.

Information to compare overhead costs under CIMO to previous city overhead is lacking. CIMO is not tracking direct city staff time on projects. Because CIMO is not yet a budgetary unit, the city's budget and accounting records do not currently identify CIMO expenses. The city had not established a consistent cost allocation method for calculating administrative costs on capital projects before the City

Manager established CIMO. Public Works, Water Services, and Aviation each used different methods to calculate overhead. Parks and Recreation did not calculate overhead at all. The city's new financial/HR management system – KC Crew – should allow tracking labor costs for projects if it is implemented properly. The City Manager should develop consistent cost accounting for capital improvements regardless of which department is responsible for the project.

CIMO is making progress in developing expedited processes. While the city is not able to assess the overall costs of the program so far, CIMO does appear to be getting the job done. We confirmed progress on all major deliverables, which should provide a foundation for lasting change. In addition, external stakeholders told us they have seen improvements in the city's capital improvements process. Contractors and representatives of the construction industry said that they have seen improvements, including a better relationship with the industry community; quicker turnaround to issue the notice to proceed; more timely land acquisition, demolition, and utility relocation work; and timelier inspections and payments. An industry representative told us that CIMO is improving the city's image and if CIMO continues doing things right, more contractors would bid on city projects and the city would get better prices.

Risks are inherent in the contract. The city's contract with MWH Americas, Inc., calls for payment based on time and materials. Controlling costs on this type of contract is difficult. The contractor's primary role is to lead and provide construction advice and oversight for prioritized projects. The scope of work in Task Order 1 includes defining goals, roles and responsibilities, the communication protocol, success measures, and reporting frameworks. The scope of work in Task Order 3 includes help developing CIMO into a city department by training city staff and developing long-term strategic planning. These deliverables are largely process-oriented. The risk is that the city will pay the contractors for their time and expenses without knowing whether the desired outcomes are achieved. The rapidly expanding scope also adds risk because the additional responsibilities on highly visible projects could overwhelm the original scope on structural/process changes.

Close monitoring mitigates risks. The City Manager's Office has been closely monitoring CIMO. We confirmed that an Assistant City Manager meets frequently with CIMO management and reviews monthly status reports prior to authorizing payments. The City Manager should continue to monitor the contract closely and should ensure that CIMO staff document process changes.

No evidence of improper contractor selection. We found no evidence that city staff selected MWH Americas, Inc. for reasons other than qualifications. Multiple people were involved in the selection process, reducing the likelihood that one individual steered the contract for personal gain. A third party, Tchibanda and Associates, checked references for MWH and Burns & McDonnell – its primary subcontractor. We also analyzed MWH Americas, Inc. financial statements for four years to assess the company’s viability. We found no indicators of liquidity, profitability, efficiency, or insolvency problems.

CIMO Faces Risks in Implementing Its Processes

Some stakeholders raised concerns about employee morale as functions and personnel have shifted among departments. Managing the human aspects of change is always a risk for organizations. The most serious risks to the city are that staff resistance will be a barrier to meaningful change, management could be ineffective in dealing with performance problems, and process improvements will only apply to a narrow subset of projects. The *i*-INFO system could also pose a risk to CIMO’s effectiveness going forward.

The City Manager and CIMO management are making efforts to manage these risks. The City Manager should clearly define the scope of CIMO’s responsibilities and ensure support systems are functioning as intended.

CIMO Faces Risks Inherent to Transition

The City Manager and CIMO management are making efforts to manage risks related to the changing processes. The City Manager should define the scope of CIMO’s responsibilities and decide whether other departments will retain any responsibility for managing capital improvements.

City and CIMO management are making efforts to manage personnel risks. Strong leadership, frequent and consistent communication, and training can help reduce employee resistance to change.

- The City Manager is strongly advocating for and leading the change.
- Communication efforts have been frequent, consistent, and through multiple channels. CIMO is developing communication plans for internal and external stakeholders going forward.

- CIMO management hired a consultant to conduct confidential interviews of 20 employees. The firm will summarize employees' concerns and provide recommendations to address concerns and improve communications.
- CIMO is providing project management training and plans additional training.

These efforts should help ease the transition to a consolidated function. However, because the CIMO structure blends city staff and contractors, risks related to personnel management will remain high and will require on-going work and attention throughout the contract period.

The City Manager should define the scope of CIMO's responsibilities. The City Manager is planning to establish CIMO as a department. As part of this effort, the City Manager should establish criteria for the types of projects that CIMO should be responsible for managing and carefully consider whether operating departments should be responsible for managing any capital projects. CIMO has taken much-needed steps to improve project management and accountability. The impact of these improvements is reduced if CIMO handles only a subset of projects.

CIMO Needs Support Systems to Work

The City Manager has decided to use the *i*-INFO software system as a tool for monitoring and reporting on the status of capital projects. However, *i*-INFO is still not fully implemented. Staff missed the June 30, 2004, deadline for entering required project data. The new deadline is the beginning of 2005. Lack of staff buy-in is the reason many technology projects fail. The Assistant City Manager told us that CIMO is redesigning the process for entering data to remove some of the burden from project managers and has added support positions to assure the system is fully implemented.

The system is not yet integrated with the city's new financial/HR timekeeping system. Custom software is often difficult to maintain because interfaces must be re-written when other systems are upgraded. According to the IT Director, the city is writing the interfaces. However, long-term maintenance may be difficult or relatively expensive.

Staff has not yet developed a plan for ensuring that data are complete, reliable, accurate, and timely. CIMO needs adequate support systems in order to manage projects effectively. The City Manager should ensure that staff develops an ongoing plan to ensure the reliability of data.

Recommendations

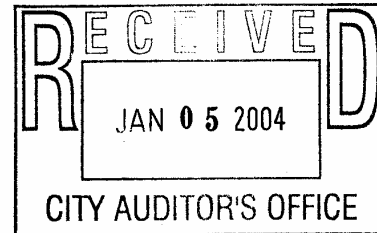
1. The City Manager should develop a consistent cost accounting method for capital improvements.
2. The City Manager should continue to monitor the contract closely and should ensure that CIMO staff document process changes.
3. The City Manager should develop aggregate performance measures on cost and timeliness and regularly provide information for the City Council to oversee the capital improvements program.
4. The City Manager should clearly define the scope of CIMO's responsibilities.
5. The City Manager should ensure that staff develops and implements ongoing procedures for ensuring capital improvements data are reliable.

Appendix

City Manager's Response



Office of the City Manager



DATE: January 5, 2005

TO: Mark Funkhouser, City Auditor

FROM: Wayne A. Cauthen, City Manager *W.A.C.*

SUBJECT: Response to Performance Audit Report on CIMO

I am pleased to read that your audit is in agreement with my approach to achieving greater efficiencies in the way we build infrastructure within the City. I believe consolidation of the City's capital construction efforts will not only lead to a reduction in the \$400M backlog of capital projects, but also enable the City to deliver projects faster and at less cost.

My responses to the recommendations of the audit are as follows:

1) The City Manager should develop a consistent cost accounting method for capital improvements.

I plan to implement a uniform project level accounting system for all capital projects performed in the City. Each City Department (including CIMO) that plans, funds and executes capital projects will use the same consistent approach of establishing project level budgets and collecting direct, indirect and overhead charges by project. I am directing staff to implement this uniform project level accounting system and am also directing departments to use it. CIMO will provide the oversight of the new accounting system. This is the only way that the City can ensure accountability, responsibility, and visibility of project performance. CIMO is currently working with OMB, ITD, and our PeopleSoft, Inc. and APEX vendor teams to provide this level of project accountability

2) The City Manager should continue to monitor the contract closely and should ensure that CIMO staff document process changes.

My Office continues to monitor the contract with MWH Americas, Inc. to ensure delivery of the City's objectives and ensure City staff are appropriately trained and mentored to lead the CIMO organization at the end of our contract with the consultant. Each calendar year, we renew MWH Americas, Inc. task order based upon their performance the previous year. We established this method of contracting to provide the City with more flexibility geared toward performance.

CIMO continues to make significant changes in the way capital projects are delivered. These changes are primarily based on industry established practices, developed to gain efficiencies. As changes are made in the CIMO delivery process, the resulting procedures will be documented and then incorporated into the formal training processes used to embed these new procedures into the City. Recently, CIMO completed a "Project Delivery Manual" that is used as the standard method by which CIMO delivers all projects. This is a comprehensive manual that follows the CIMO "cradle to grave" method of Project Management. Within the first quarter of 2005, this manual will be available to all CIMO staff on an Intranet site to bring of ease of access. This is only one example of the process to document and train staff on process improvements.

3) The City Manager should develop aggregate performance measures on cost and timeliness and regularly provide information for the City Council to oversee the capital improvements program.

CIMO continues to develop Key Performance Indicators (KPIs) that will provide additional visibility of project progress and performance to Council and key stakeholders. The critical element to developing these KPIs is having a reliable and robust project controls system that is capable of tracking cost and schedule at the project level. To obtain this level of project controls system, the APEX I-Info and PeopleSoft, Inc. financial system must be in place and operational. CIMO plans to have these systems feeding project cost and schedule data into an aggregate set of KPIs in the early part of 2005. In the meantime, CIMO has been producing KPIs based on manually acquired data to track key performance metrics such as number of projects to construction during a period, number of projects moving from ROW to design and design to construction to measure the movement of projects to schedule. CIMO plans to KPIs that not only provide visibility to aggregate performance, but use these KPIs to establish goals, accountability and set a behavior of achieving project milestones on schedule and on budget.

4) The City Manager should clearly define the scope of CIMO's responsibilities.

In the City's 2005/2006 fiscal year budget, CIMO will be established as a formal office. As an internal service function, CIMO will be responsible for all of the City's planned capital improvement projects. I will be working with the various departments to establish joint responsibilities between each and CIMO to ensure a common understanding of CIMO and the Departments role.

5) The City Manager should ensure that staff develops and implements ongoing procedures for ensuring capital improvements data are reliable.

The reliability and eventual credibility of capital improvement data is paramount to the success of CIMO and the effectiveness of the management tools CIMO produces. If the public, Council and city staff does not believe data on project performance is timely, accurate and believable, the systems created will not be used as credible management tools and the

cost of development will be lost. An integral part of the project controls systems CIMO is building, using APEX and PeopleSoft components, is a professional Quality Assurance and Quality Control Plan. This plan will provide standard methods for the collection, analysis and reporting of data. The plan will also include a quality control element that requires regular audits of project data to ensure validity and reliability of the data.